
The Wars in Chechnya and Their Effects on Neighboring Regions

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Abstract: A team of Russia- and U.S.-based geographers presents and discusses the economic and demographic consequences of the conflicts in Chechnya on that republic, on the neighboring ethnic republics of the North Caucasus, as well as on the adjoining region of Stavropol' with a majority of Russian inhabitants. Formal economic indicators, which generally exhibit negative trends since 1991, are contrasted with the large, diverse shadow economy that tends to absorb federal development funding diverted from the formal sector to the benefit of local elites. The authors explore the extent to which economic activity once based in Chechnya is dispersed to contiguous regions, discuss changes in the ethnic composition of the republics ("de-Russification"), and consider whether Chechnya and the adjoining republics will ever regain the close economic, political, and social ties with Russia that prevailed during the Soviet period. *Journal of Economic Literature*, Classification Numbers: I31, O15, O18, R12. 3 figures, 1 table, 73 references. Key words: North Caucasus, Chechnya, Russia, terrorism, Kabardino-Balkaria, jihadists, Dagestan, Ingushetia, shariat, corruption, Stavropol' Kray, clans, shadow economy, Russo-Chechen wars, money laundering.

The conflicts that have plagued Chechnya since the dissolution of the Soviet Union have been responsible for a very high cost in human lives, with as many as 75,000 civilians and 14,000 military killed, according to estimates by the Memorial human rights organization (Abdullayev, 2005). Most attention has been focused on the military campaigns and the impacts of rampant violence, but very little attention has been paid to the non-military dimensions of these devastating wars, both within Chechnya and beyond. Violence can be found in every region of the North Caucasus and the entire region is marked by the historical legacy of forced migrations.

Chechnya occupies a unique and somewhat paradoxical position in a distinctly unstable region. Most of the Republic's conventional ties with the outside world have been severed. Until recently, the region has been a "no-go" zone for the world's press. Human rights groups and humanitarian organizations have long been forced out of the region. Economic and transportation networks once focused on the republic have been relocated over the past decade and a half to avoid crossing Chechen territory. Yet, while persistent brutal violence has con-

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solidated Chechnya's isolation, this very violence has made it a priority region for federal authorities, with the Russian state spending massive amounts of money in the form of military commitments and fiscal subsidies. As a result, Chechnya has become highly securitized, ringed and blanketed by a network of military checkpoints and bases meant to contain terrorist threats inside the republic and bolster the Kremlin's allies (now President Ramzan Kadyrov) in the local government. Persistent insecurity and the massive infusion of military hardware and financial resources have choked off Chechnya's interactions with neighboring regions while increasing its dependence on Moscow.

The Chechen wars have divided the region neighboring Chechnya into winners and losers. Some elites have been able to reap massive monetary rewards from the chaos and conflict, whereas the vast majority of the population is left to suffer the crippling consequences of conflict and instability. Chechnya remains in large part an economic unknown because there are few reliable economic data for the republic. Meanwhile, the neighboring republics have attempted to compensate for the void left by the devastation of this former economic engine of the North Caucasus, assuming dominant positions in transportation, oil production, and wholesaling that were once held by Chechnya.

The benefits to neighboring regions have not been uniform, however. Ingushetia, for example, has seen rapid development in its petrochemical industry as Chechnya's has withered, and it has received significant infusions of aid from foreign investors. But conversely, the republic has also had to endure military impacts, as well as an immense influx of refugees. Among Chechnya's neighbors, Stavropol' Kray, in particular, stands out. Due to its size, wealth, and relative stability, it has managed to escape much of the economic dislocation that has plagued the ethnic republics, and much of the money flowing into the North Caucasus has found its way to the kray's banks and businesses.

The war also has had a major effect on the demographic situation in the North Caucasus, in turn generating economic consequences. The North Caucasus is one of the few regions of Russia in which the population is not shrinking. Migration in the region, both forced and voluntary, has fundamentally altered the ethnic composition of most republics and territories. The reorganization of the transportation network to avoid known danger zones has fostered the growth of new population centers, and large urban centers continue to grow rapidly. Centers of economic activity, financial and trade flows, and investment and growth have moved to new locations to adapt to the effects of war. Finally, much of the money entering Chechnya to address insecurity frequently finds its way to other regions that are more secure. Although these funds often are redirected into other hands illegally, the informal sector in the North Caucasus has nonetheless been critical for maintaining some degree of economic stability and growth.

This paper takes a nuanced approach to the study of conflict and its economic impacts. After an overview of the multiple, contradictory interpretations of the causes and sequences of the Chechen wars, we examine their economic effects. Often when conflict is as pervasive and protracted as it has been in the North Caucasus, the economic effects are neither obvious nor predictable. Conflict has not entirely destroyed the economic potential of the region. Rather, it has allowed for the redistribution of economic functions and provided new opportunities for economic development. By dividing the consequences of the war into formal and informal sectors, and by examining them both in Chechnya and in adjoining regions, we provide a broader view by examining the key role of the Russian state and federal policies. Just as populations have adjusted by moving to escape the war, a rapid economic reorganization of the entire region is under way. We also present details on demographic change in the region, and conclude the paper with a closer examination of ethnic population changes,

including in Stavropol' Kray, the majority-Russian region just to the north, which serves as an intermediary between Chechnya and the rest of Russia, especially with respect to migration and financial activity.

ROOTS OF THE CONFLICT: THE TWO CHECHEN WARS

Chechnya has not been continually at war since it declared its independence from the Soviet Union in 1991; rather, there have been sharp spikes of direct military confrontation with Moscow followed by long periods of protracted insurgent and terrorist violence.² During the Soviet period, Chechnya was part of the Checheno-Ingush Autonomous Soviet Socialist Republic (ASSR), an agglomeration of Chechen territories and those of their Ingush neighbors. Boris Yel'tsin, then-president of the RSFSR, declared a state of emergency in Chechnya in November 1991, dispatching troops to Grozny one month after the region had declared its independence; these were repulsed and the chaos surrounding the Soviet Union's demise allowed Chechnya to be left to its own devices. Led by a retired Air Force general named Dzhokhar Dudayev, Chechnya split with Ingushetia in 1992 and again declared independence, this time from the Russian Federation, in 1993.

Russia's involvement in the Chechen conflict began as covert support for anti-Dudayev forces, which had launched several failed coups during Chechnya's *de facto* independence. Factional fighting increased, and in December 1994, Yel'tsin ordered a full assault on the republic to restore federal authority. What ensued was a disastrous 21-month campaign that culminated in the encirclement of several thousand Russian troops inside the capital, Grozny, by Chechen rebel forces in August 1996. That same month, a peace deal was brokered at Khasavyurt (Dagestan), which called for the withdrawal of all Russian forces from Chechnya by the end of the year and stipulated that the final status of the republic would be resolved by 2001 (Sakwa, 2005, p. 296).

The period from 1996 until the resumption of hostilities in 1999 was one of *de facto* independence for Chechnya but little stability. Criminality was rampant, and little of the ravaged landscape was rebuilt (Kramer, 2005a). Dudayev's elected successor, a retired Soviet army colonel with more moderate and secular leanings named Aslan Maskhadov, found it increasingly difficult to control radical militants operating in Chechnya, such as Shamil Basayev and foreign jihadists. This instability was not confined to Chechnya, either; Dagestan was a frequent target for the fast-growing Chechen kidnapping industry, and Chechen militants found common cause with several armed opposition groups within Dagestan (Ware and Kisriev, 2002, p. 146).

A rash of bombings of apartment buildings in Moscow and other Russian cities in August–September 1999 helped precipitate the second Chechen war. Although doubts remain about the official blame and convictions of Chechen terrorists for the bombings, they, together with raids into Dagestan (see below), provided an opportunity for the recently appointed Prime Minister, Vladimir Putin, to launch a new military campaign against the restive region. In August 1999, Basayev and the rebel commander Ibn al-Khattab launched incursions into western Dagestan in the hope of establishing a fundamentalist Islamic state (*shariat*) in the North Caucasus. The first raiding party was roughly half Dagestani; in the second wave of raids in September, the vast majority of fighters were Chechen (Ware and Kisriev, 2002). Putin, who had been given responsibility for the conduct of the war by

²For more detailed accounts, see Smith (1998), Politkovskaya (2001), German (2003), and Sakwa (2005).

Yel'tsin, ordered federal forces back into Chechnya, and by early 2000, they were in control of the capital. The second war, with the exception of the early months of the Russian campaign, was not characterized by large-scale bombing and pitched battles; instead, it quickly settled into a protracted insurgency that, despite the efforts of federal forces to contain it, has touched many regions of the North Caucasus.

The nature of the Chechen conflict has varied considerably over the past decade and a half. What began as a widely supported independence movement became, in Politkovskaya's (2001) words, a "dirty war." Insurgent tactics have changed and adapted to the evolving local and national political situations. In Chechnya and Ingushetia, much of the violence is perpetrated by extremist groups against federal security personnel, whereas ongoing violence in Dagestan is more often the product of political and business rivalries between elites. Suicide bombings have taken place in every single ethnic republic in the North Caucasus (Kramer, 2005a, p. 49). Major terrorist attacks outside of Chechnya, such as the hostage taking in Beslan (North Ossetia) in September 2004, the October 2005 raid on the city of Nal'chik (Kabardino-Balkaria), and bombings in Moscow have been the most visible indicators of the ongoing conflict. But it is the incessant daily acts of violence in the North Caucasus that truly demonstrate the pervasive and intractable nature of the Chechen conflict.

For the past several years, the federal government has pursued a policy known as "Chechenization," whereby fiscal and security responsibilities are to be transferred back to local authorities; however, progress has been slow (Baev, 2004). Russian military officials are reluctant to relinquish their authority in the republic, and Chechnya has few financial resources to support itself. Chechnya is slated to lose its special administrative status (and the associated federal funding) in 2009, and there are protests already from Grozny that the republic cannot survive without heavy support from Moscow. Large amounts of money have been pledged by the Kremlin for the reconstruction of the republic, but the procedures for its distribution are still at issue (*GTRK Vaynakh TV, Grozny* – translated by *BBC Monitoring*, November 1, 2006). With the rebel leadership largely killed and a former rebel commander, Akhmad Kadyrov, switching sides in 2000, a pro-Kremlin regime was installed in Grozny. After Kadyrov himself was assassinated, his son Ramzan became the real power in Chechnya, inheriting the largest paramilitary force in the entire region, and the Chechen presidency in February 2007.

Despite the claims of both the Kremlin and the Kadyrov government that the security situation in Chechnya is dramatically improved, there is little supporting evidence. Many of the top commanders, including Basayev, have been killed in the past several years, but it remains an open question as to whether violence has been curbed or confined to certain areas. Kadyrov declared in November 2006 that extremist groups in Chechnya each have no more than 50–60 armed fighters, and the total number is no higher than 150 (*TASS*, November 26, 2006). But the number of violent events has risen steadily since 1999, as has the number of regions affected by violence. In a study of insurgency in the North Caucasus, Jason Lyall (2006, p. 16) has stated that in 1999, 11 administrative districts (rayons) in the North Caucasus experienced at least one violent insurgent event; by 2005, that number had risen to 35. He also estimated that there were at least 17 insurgent groups operating in the North Caucasus in late 2005 with forces ranging in size from 50 to 2,000 fighters. Even Kadyrov's government admits that it only counted 386 militants who officially surrendered their arms in 2006 (*TASS*, November 26, 2006). Nevertheless, Kadyrov has become the sole guarantor of Kremlin authority in Chechnya, and his elevation to the presidency demonstrates that authorities in Moscow are more interested in passing security responsibilities on to local strongmen than in addressing the more difficult economic and political issues.

DIVERSE INTERPRETATIONS OF THE CHECHEN CONFLICT

The prevailing approaches to the study of the Chechen conflict, both within and outside Russia, have been preoccupied with its military dimensions and have, consequently, tended to ignore the broad extent of its economic impacts. While spectacular and high-profile economic issues (e.g., the kidnapping industry, drug smuggling, and the growth of criminal gangs) have attracted serious consideration, other economic dimensions are less visible, but no less important. Researchers also are often distracted from critically engaging economic questions by certain dominant geopolitical narratives; these include the political implications of separatist agitation in Russia, the spread of Islamic fundamentalism, and the focus on ethnic and “civilizational” rivalries. These discourses are by no means irrelevant, but their sweeping claims tend to confound economic analysis of the North Caucasus rather than illuminate it.³

Criminality and official corruption are the most common subjects of economic research in Chechnya and are part of the discourse of the conflict itself. The war is widely viewed as a windfall for criminal enterprises across the republic, the North Caucasus, and Russia, which is why it is called a “commercial war” (Malashenko, 2004).⁴ Movladi Ugudov (1999), an official in the governments of both Dudayev and Maskhadov, has also commented on the so-called “commercialization” of the conflict. “As part of conducting this war, we have created conditions for destabilizing the entire region, as well as Russia as a whole. We forewarned that there would be a class of people who would come to depend upon the war for their very survival. As a result, we see many new criminal enterprises developing, in both Chechnya and across Russia” (ibid.). Sultan Mirzoyev (2005), Ugudov’s counterpart in the Moscow-backed regime of former president Akhmad Kadyrov, has couched the entire conflict in these economic terms. “I have said before that this war, which has engulfed all the Chechen people . . . is not a holy war, it is not for Allah, and it is not for the people that these bandits are fighting. I said directly that this is a commercial war” (ibid.). The limitations of such economically based discourse on the conflict is that neither side is willing to admit the existence of its own structures of corruption. Not only is there a lack of analysis of the political economy of criminality and corruption, but no attention is being paid to the broad political economy of the conflict, to economic processes beyond criminal activity, or to the impacts on surrounding regions beyond Chechnya.

Overly broad geopolitical interpretations of the conflict have also confounded efforts to answer critical economic questions. Because the war in Chechnya began as an ethnic separatist conflict, narratives about Russian subjugation of the native people and the possible spread of separatism to other regions predominate. Some researchers, both Russian and non-Russian, have interpreted the conflict as a clash between imperial (Russian) forces and a Chechen national liberation movement (see Bowker, 2005). The dominant view coming from this camp has been that Chechnya—even the entire North Caucasus—is not historically a part of Russia. As Ronald Suny (1995, p. 195) has noted:

Though the Russian Federation is even more artificial a state than was the old USSR—it had never existed in history in its current borders except as a creation of Soviet power—its claim to be the heir to historic Russia has been recognized by the

³For additional material on the discourses surrounding the North Caucasus, see Kolossov and Toal (2007).

⁴The illicit sale of Chechnya’s oil, the trade in arms, and the rampant corruption among the security services operating in the region were described extensively by Anna Politkovskaya, a journalist murdered in October 2006.

whole world and given a legitimacy that permits statesmen to excuse the Chechen war as an “internal problem.” . . . Whatever Russia becomes internally, its relationship with Chechnya can hardly be seen as anything other than imperial.

After more than 10 years of war in the region, Chechnya’s political scene has changed dramatically, and national liberation is no longer the dominant theme in the discourse surrounding the conflict. Some observers doubt that independence for the republic would offer a solution to any of the problems in the region. Richard Sakwa (2005), for example, argues that this would create even greater separatist pressures throughout the North Caucasus. Others doubt the likelihood of Chechnya gaining independence in the near or medium term. “[I]t should be clear that, for a very long time to come, the development of a Chechen state and of a new Chechen political society will have to take place within the Russian Federation, and that independence for Chechnya is off the agenda for many years to come” (Hill et al., 2005, p. 4).⁵

Possible territorial and administrative reorganization of the region as a sort of politico-territorial fix to the instability of the region is also posited. Radical rebel elements, for example, attempted to create a union of Chechnya and Dagestan as part of an effort to create a new Islamic *shariat* that would stretch across the entire North Caucasus (e.g., see Radvanyi and Muduyev, 2007, pp. 166–167). But the further disintegration of territorial-administrative units is a more likely future outcome (Hill, 1995; Dunlop, 1998; Lieven, 1998). Separatist movements and efforts to redraw internal administrative borders to better reflect republics’ ethnic compositions is especially pertinent to the so-called “dual republics.”⁶

Chechnya’s relationship to international terrorism and fundamentalist Islam are other major discourses that have dominated studies of the region. Mark Kramer has identified a number of destabilizing processes tied directly to the war, namely “the ascendance of Islamic extremist elements in Ingushetia, the rise of other radical groups in Kabardino-Balkaria and Karachaevo-Cherkessia, the growing friction between the Ingush and the North Ossetians, and the long-simmering tension in Dagestan” (Kramer, 2005b, p. 261). The spread of a Caucasian brand of Wahhabism during the first Chechen war and the involvement of foreign jihadists gave the Russian government license to make direct links between the North Caucasus radicals and al-Qaeda, whether they existed or not (O’Loughlin et al., 2004; Giuliano, 2005).

A myopic view of Russia’s Muslims has led to an interpretation of the war as a so-called “clash of civilizations,” as a conflict between Christian Russia and the Muslim peoples of the North Caucasus. Some enframe the ongoing conflict as a threat to the development of the entire country, not just the southern regions (Kagramanov, 2000; Demurin, 2006). One such advocate of this position, Gennadiy Drach (2000), has argued:

⁵But many experts in Russia do not see this future as so far off—they regard the current Chechen leadership with intense suspicion and see their loyalty to Moscow as a façade. Chechen authorities are given the protection and backing of the federal government, while at the same time they are erecting an independent government with state capacities (e.g., their own defense infrastructure, financial resources, and ideology) that will soon be beyond the control of the central state. Total independence is merely the first step in Chechnya asserting itself as the regional hegemon (Davydov, 2004; Silayev, 2005).

⁶A relic of the Soviet period, these are republics with two titular nationalities, such as Kabardino-Balkaria, Karachayevo-Cherkessia, or the former Checheno-Ingush Autonomous Soviet Socialist Republic (Tishkov, 1999; Savva, 2002).

Table 1. Comparison of Economic Indicators of North Caucasian Regions, 2004^a
(in percent of total)

Indicator	Six republics ^b	Stavropol' Kray	Russian Federation
	Population		
Urban	45.7	56	71
Rural	54.3	44	29
Employment			
In social service sector	35–37	18	17
In management positions	12–17	4	5
Rate of employment ^c	17–30	58.5	65
Rate of unemployment	22–57	8.8–9.2	7–8
Rate of poverty	>50	28–32	20–22
	Regional economic output		
Industrial production	14–15	22	28.5
Farming and forestry	20–25	17	6–7
Construction	8–10	6.1	7.8
Transport and communications	8–9	16.2–17.0	7.2
Commerce	17–19	15.9	20
Services	23–25	22.3	23.7

^aMost recent data available as of March 15, 2006.

^bTotal for Chechnya, Ingushetia, Dagestan, North Ossetia, Kabardino-Balkaria, and Karachayevo-Cherkessia.

^cPercentage of total population.

Source: Compiled by the authors from Rosstat (2005).

For Russia, the great question is how to live in a country of divided civilizations. Some may view this as an extreme viewpoint on the situation, but we live in the North Caucasus, and we know perfectly well that if this clash is taking place across the North Caucasus, then it is no longer a theory, but a reality, and a bloody one at that.

Critics of this view cite the diversity of the North Caucasus to demonstrate that it is not a single culture united against Russia, but rather a mosaic of many different ethnicities, cultures, and religious practices (Tsymburskiy, 1995). The region has always been a zone of contact between cultures with elastic borders and complex religious and ethnic identities. The long history of close contact between these peoples has led to the adoption of certain social norms to maintain relatively peaceful relations (Markedonov, 2006). All of these interpretations of the current situation in the North Caucasus have inadequacies, and none address the critical economic or population questions directly.

STAVROPOL' KRAY AND THE REPUBLICS: TERRITORIAL GRADIENTS OF DEVELOPMENT

The most striking differences between the household economies of the six ethnic republics and that of Stavropol' Kray are clearly evident in the levels of income and employment (Table 1). Compared to the Russian national mean per capita monthly income of \$276, the corresponding figures for Ingushetia, Dagestan, and Stavropol' Kray (\$85, \$165, and \$178, respectively) are substantially below the average (An Overview, 2007).

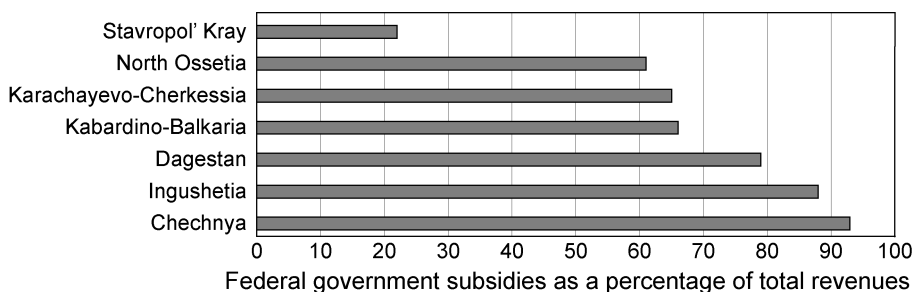


Fig. 1. Percentage of republic/kray revenues provided by central government (*O sostoyanii*, 2004).

But there are, of course, other regional-level geographical differences one can observe with respect to the broader region's development. Distinctions between lowlands and highlands and between rural and urban areas of the North Caucasus are quite significant (e.g., see Eldarov et al., 2007 and Radvanyi and Muduyev, 2007 in this special issue), although not captured adequately by the regional-level data. Furthermore, Russians still hold the dominant economic position within most regions of the North Caucasus, and while economic indicators show a clear division between Russians and the other ethnic groups, they do not necessarily occupy different sectors within the local economies.

Official unemployment exceeds 50 percent in several regions, and across all six republics, with well over half the population living below the federally established poverty line. These figures, while certainly eye opening, should not be accepted at face value, as economic data for the North Caucasus are notoriously unreliable; they particularly underestimate total levels of activity by not encompassing the shadow economy (see the end of this section). Despite these data limitations, it is clear that Stavropol' Kray is appreciably better off than its neighbors to the south. This division is also evident in the agricultural sector; Stavropol' Kray is one of the leading grain producers in Russia, while production in the republics is largely limited to subsistence or barter. Only Dagestan and Kabardino-Balkaria are able to grow enough produce to export the surplus to other regions in Russia.

All six republics in the North Caucasus receive substantial subsidies from the federal government, which constitute more than half of local government revenues (Fig. 1). These funds are used mostly to cover basic social spending (pensions, government employee salaries, schools, and welfare), although the price of utilities and housing is also heavily subsidized, usually by Moscow as well. But despite the massive spending by the federal authorities in the North Caucasus, there is still very little money available for concerted reconstruction and development projects.

In Stavropol' Kray, the fiscal situation is quite different. Funds from the central government are not disbursed directly to local authorities; instead, a consortium of Russia's largest banks, including state-owned giants Sberbank and Vneshtorgbank, manage and distribute the money to the region's budget. The banking sector in the region is quite well developed, with 53 different banks operating there in 2006.⁷

⁷The number operating in Dagestan was 175, but this figure is misleading. Although branches of the country's leading banks operate in the republic, most banks are owned and operated by local elites to serve the needs of their own businesses and related corporate interests (Gadzhiev and Magomedova, 2006).

The dramatic picture of extreme poverty and sharp socio-economic gradients is somewhat of a statistical artifact. According to data collected by a study group of the Southern Branch of the Russian Academy of Sciences, the informal sector accounted for approximately 60–80 percent of all economic activity in the ethnic republics, whereas in Stavropol' Kray, this share was closer to 30 percent (*Izvestiya*, November 12, 2006). This powerful “shadow” sector of the economy explains the surprising difference between the expected poverty indicated by the statistics and surprising signs of development (including a housing boom and new car markets) and modernization in North Caucasus, which is noticed by even the most unobservant of visitors.

THE CHECHEN ECONOMY: WAR EFFECTS AND CONTINUED CHALLENGES

Within the North Caucasus, Chechnya's political and economical roles are asymmetrical; the republic has enormous political significance but insignificant economic output. The discourse used by Chechen politicians involves re-equilibrating politics and economics through the creation of a kind of common economic space with adjoining ethnic republics, especially with populous Dagestan and the “natural” partner, Ingushetia. But this proposal does not have much appeal in either Dagestan or Ingushetia (Yunusov, 2004b).

During the Soviet period, Grozny was the center of the regional network of roads, railways, and pipelines. The major transportation corridors in Chechnya passed through some of the most economically developed and densely populated areas in the foothills of the Caucasus. They were constructed to keep the various regions of the republic well-connected, as well as to keep Chechnya integrated within the Soviet economy. The rail network was the most significant, but Grozny's airport also served most major Russian cities and was capable of handling heavy cargo and large passenger aircraft. The pipeline system extended for over 1,000 km and carried crude oil, natural gas, and petrochemical products.

Since the collapse of the Soviet Union, investment in Chechen infrastructure has fallen off dramatically. The only major project in the republic has been the construction of a highway linking it with Georgia, which was constructed after the end of hostilities in the first Chechen war.⁸ As a result of the conflict in the region, 70 percent of Chechnya's roads have been destroyed. In addition, a flood in June 2002 destroyed 160 km of roadways and 33 bridges in the republic (Semenov, 2004). This event also severely affected the rail network, knocking out of operation most of the electrified track and damaging several major stations and depots. In March 2007, air service between Grozny and Moscow finally resumed (see *ITAR-TASS*, March 5, 2007).

As for the once-vital pipeline network, most sections have simply fallen into disrepair and are no longer useable; an exception are pipelines used to link local oil wells to regional transport and storage facilities. The route of the Baku-Novorossiysk pipeline, which ran through Chechnya during Soviet times, was changed to pass through Stavropol' Kray. This new pipeline is also the main route for transporting oil from Kazakhstan's Tengiz field to Russia's Black Sea ports.

The Rostov-on-Don to Baku federal highway has also been shifted to circumvent Chechnya, and substantial investment has gone into improving the portion of the road that

⁸The Russian section of the road was completed in 1998, but still has not been opened to cross-border traffic (see also Radvanyi and Mudyuev, 2007 in this special issue).

passes through Stavropol' Kray, allowing for greater speed and safety to compensate for the longer distance. The city of Mineral'nyye Vody has also started to develop as a major air transport hub for the region. All of these changes signify that Stavropol' Kray has been transformed from a *cul-de-sac*, or second-order location burdened by a restless neighbor, to a transit hub with considerably heightened connectivity and extra-regional contacts. The improved transport access has not only enhanced the kray's economic output, but has doubled employment in the region's transportation sector.

In 2005, the total value of Chechnya's industrial output was a mere US\$450 million; of this amount, oil production constituted 98.4 percent.⁹ Chechnya's entire industrial economy is dependent on oil exports, yet there are no major functioning refineries or other petrochemical facilities in the republic,¹⁰ and all production is controlled by the state-dominated oil company, Rosneft'. Most of the republic's oil is exported, and the profits are channeled into a special account in the federal Ministry of Energy and Industry. While the money is to be earmarked for the republic's budget, the funds are frozen, and the Ministry directs the flow of funds through a special emergency mechanism (Novyy, 2006) so that control of Chechnya's largest source of income is not in the hands of local authorities. Thus, according to President Ramzan Kadyrov, the locals' only benefit from the republic's oil industry is derived from the illicit sale and processing of oil—roughly 1,500 tons of oil are “lost” each day in Chechnya, funneled off and sold without proper licensing (Ramzan, 2007).

Chechnya is largely dependent on its neighbors for electricity, because it has only two small power stations. The regional power company has focused most of its efforts on constructing more transmission lines rather than new generating capacity, as nearly all electricity consumed in the republic is generated in neighboring regions, especially Dagestan, Ingushetia, and Stavropol' Kray.

Before the outbreak of war, Grozny was a major regional retail center. Because all official international links with Chechnya have by now been closed, this trade is almost entirely dependent on suppliers from neighboring Russian regions. Khasavyurt in Dagestan and Pyatigorsk in Stavropol' Kray are presently the major transit points for deliveries to and from Chechnya.¹¹ It is estimated that Chechen distributors spend an average of \$5 million each month in these two markets alone, although the true figure is likely much higher, as many transactions are not reported to local tax authorities (Yunusov, 2004a). Because nearly all goods destined for final sale in the Chechen market pass through customs control and taxation in some neighboring region, consumer prices in Chechnya are the highest in the North Caucasus. Another factor contributing to the high prices is the nearly total absence of a functioning banking system for small businesses.¹²

Any discussion of the benefits of location near a conflict zone appears, at least at face value, to be quite cynical. Armed conflicts should hardly be regarded as beneficial for

⁹Oil production of the Checheno-Ingush ASSR reached its highest volume in 1971, topping 21.5 million metric tons that year. In 1991, the final year of the Soviet Union, production was 4.1 million tons, but subsequently averaged well below 1 million, although no official figures are available for 1994–2000. In 2005, production reached 2.2 million tons of oil and 530 million cubic meters of natural gas (for background see ChechenyaFree.ru, 2006; Sagers, 2006, p. 508).

¹⁰These facilities, once an important component of the republic's economy, were either destroyed or otherwise abandoned during the Chechen wars.

¹¹All place names mentioned in this paper are identified in Figures 1 and 2 of the preface and in the map supplement in this special issue.

¹²Russia's largest state-owned bank, Sberbank, does operate in the republic, but maintains a major regional office in the city of Stavropol'. Smaller commercial banks do operate, but they only provide a small range of services, such as issuing paychecks and pension checks (*Biznes-Plan*, 2006).

anyone. Nonetheless, there are always winners and losers, even in such grisly local conflicts as the ones that have gripped the North Caucasus for well over a decade. Usually, those who suffer and the ones who benefit the most are not directly involved in the conflict. On the one hand, scores of refugees continue to live in Chechnya and in scattered localities across the region; on the other, some local elites have been able to adapt well to the instability that the war has created for their own personal benefit. But it is not just elites who have reaped the rewards of war—neighboring regions that have adapted most effectively have been able to use the conflict as an engine of growth. We can divide the benefits received into two basic categories: (1) conventional rewards that will likely not fuel growth in the region; and (2) unconventional rewards, which will remain important for economic growth and development in the future.

Conventional rewards depend in large part on maintaining a regime of instability, creating a situation conducive to “payments for stability” in the region, as many local elites depend on such conditions for their economic well-being. Tensions tend to perpetuate paternalistic politics, both at the local level and in the region’s relationship with the central government. Because the federal government is a strong player in local politics, political groups perceived as loyal to the Kremlin and viewed as promoters of regional stability receive the benefits of direct federal subsidies. Moreover, they also are granted by their counterparts in the federal government a more tangible freedom of action, both economic and political.

The massive presence of federal security forces is another prominent conditional benefit to neighboring regions. Although few local residents are pleased to reside near a military base, the installations do provide a steady flow of money into the local budget. Base operations create specialized service jobs, and professionals, such as engineers, technicians, and doctors, benefit from the infusion of money and personnel (Raskin, 2005); the construction and maintenance of transportation infrastructure also creates jobs requiring less skilled labor. On balance, a military base can become a great asset for a community, unless a major conflict arises between the predominantly Russian soldiers and local residents (always a distinct possibility). Nongovernmental organizations (NGOs) that administer aid to the refugees also can bring benefits to the neighboring regions, as such operations are often based outside the zone of immediate conflict.¹³

Unconventional benefits to the local economy can be defined as processes that restore a region’s economic vitality. Confining a conflict to a certain area is an important step in economic development that requires not only military intervention but also addresses the root socio-economic causes of the confrontation. After a period of stability, local economies, especially in the zones close to Chechnya’s borders, are playing a role similar to an epithelium, working to prevent the diffusion of Chechnya’s “inflammation” and regenerating healthy connective tissue. However, the continued spread of violence indicates that this effort has not been entirely successful, largely because many of the operations of insurgent groups have moved beyond Chechnya’s borders (Dunlop and Menon, 2006). Given Chechnya’s relative isolation, the surrounding republics are performing different economic roles in the region than in the past, so that the longer the instability in Chechnya continues, the greater the opportunity of the new roles to gradually solidify in the form of new transportation networks, new trade relationships, and long-term development programs. Even if the conflict

¹³For example, the local offices of the United Nations High Commissioner for Refugees (UNHCR) are located in Vladikavkaz (North Ossetia) and Nazran’ (Ingushetia), but not in Chechnya (UNHCR, 2006).

slowly dissipates, Chechnya likely for a long time will retain its reputation as a lawless place plagued by violence and kidnappings.

Ingushetia has received many economic benefits from its location on the western border of an important oil-producing region developed even prior to the Bolshevik Revolution. Chechnya's capital Grozny became a significant oil refining center and pipeline hub during the Soviet period, as well as an important petrochemical center (e.g., see Shabad, 1969, pp. 143–146). But today, new development in these sectors of the economy has gravitated to Ingushetia. A natural gas refinery recently was constructed in the city of Voznesensk, and its owner, Ingushneftegazprom, has attracted a line of credit from a German partner prepared to invest in the facility by the end of 2007 (Sukhov, 2006). Since 2005, a similar arrangement has been in place with a group of British energy traders, who have invested in the construction of an oil refinery in Karabulak (*ibid.*). Moreover, yet another refinery is slated for construction that will have a projected daily capacity of 300,000 metric tons of oil and 100 million cubic meters of natural gas.

Similarly, Dagestan has reaped some benefits from proximity to Chechnya, which now depends on its eastern neighbor in many ways for its economic survival. Dagestan is the largest supplier of consumer goods to Chechnya, as well as the largest consumer of the few goods that Chechnya manages to produce. Khasavyurt's wholesale market is now the regional trade center, and not simply because Grozny is no longer safe for business; Khasavyurt has benefited substantially from the realignment of transportation networks away from the Chechen capital.¹⁴ The corridor between Khasavyurt and Grozny is now the most heavily traveled in Chechnya, serviced by normal bus service and commuter trains.

Despite the efforts by Moscow to promote economic development in Chechnya, the future remains quite problematic. Since the early 1990s, one of the main goals of every Chechen government has been to promote privatization and moves toward a market economy; yet there has been almost no official privatization of state-owned enterprises. The republic's income is not large, due in no small part to the limited size of its tax base: fully 62 percent of taxes collected by local tax authorities are withheld from the paychecks of local government employees (*O sostoyanii*, 2004). Chechen capital accumulations (profits made in the oil industry), as well as the interests of the Chechen "business diaspora" residing in various Russian cities, remain outside Chechnya. For "expatriate" Chechen capitalists, participation in the republic's political and economic life involves strengthening their own positions in the Moscow establishment rather than investing in local development projects (Yunusov, 2004a).

Given the isolation and "naturalization" of the Chechen economy, the principal activity of the Kadyrov government revolves around efforts to redistribute budgetary flows from Moscow while at the same time reducing isolation and achieving economic self-sufficiency. In early 2005, the governments in Moscow and Grozny proposed to conclude an agreement that would clearly define the budgetary responsibilities of federal and Chechen authorities, grant Chechnya fiscal independence, give the republic the status of a region of "intense economic development," and give it complete control over the extraction and processing of its natural resources (*Kommersant*, February 22, 2007, p. 1). However, a year later, the federal government moved to assert complete control over the finances of all the republics of the North Caucasus, including Chechnya, and that 2005 proposal was not implemented. In

¹⁴Dagestani authorities have also made a concerted effort to divert traders and consumers from Chechnya, going so far as to declare quarantines in certain border areas in order to prevent passage (Yunusov, 2004b).

November 2006, the pendulum swung back the other way, when President Putin promulgated a proposal to restore a division between federal and local budgetary decision-making to Chechnya (*ibid.*).

It would not be reasonable, however, to assume that Putin's most recent plan will play a major role in reviving Chechnya's economic health. A new economic reality has taken shape in the North Caucasus in response to the Chechen wars, and the republic has lost the commanding position it once held in certain sectors of the regional economy. To state the matter succinctly, Chechnya's difficulty has been its neighbors' opportunity. Rashid Yunusov, the director of the analytical department within Chechnya's Finance Ministry, believes that returning the republic to its former position would require a complete overhaul of regional economic arrangements forged during the Chechen conflicts: consumer markets, markets for raw materials, and trade flows have now assumed a different economic geography (Yunusov, 2004a). A more realistic path forward would be for Chechnya to foster closer economic ties with its neighbors, especially with Ingushetia and Dagestan. Efforts to re-establish Chechnya as the center of the regional economy of the North Caucasus republics (its former role), would likely lead to unhealthy competition with other republics, whose elites would want to protect their current positions. These local elites have benefited greatly from Chechnya's ongoing conflict and diminished economic strength, which have allowed them to develop closer ties with Moscow. As such they too remain a serious obstacle to regional integration.

ROLE OF THE INFORMAL ECONOMY IN REGIONAL DEVELOPMENT

As the preceding section demonstrates, development strategies pursued by local government officials in the region have changed in the wake of the Chechen conflict. However, given the lack of firm state control over the formal economy, a consideration of changes in the informal (shadow) sector is equally (if not more) important. And, not unlike the formal sector, a significant reorganization of the economic geography of the informal sector is under way in the North Caucasus.

The sheer scope of informal activities in the North Caucasus can have a negative impact on the functioning of the state. For example, Kabardino-Balkaria leads the North Caucasus with the largest share of its trade economy categorized as informal—a massive 85.3 percent, according to Guseynov (2006).¹⁵ However, despite such negative indicators, given the relative lack of economic opportunities in formal sectors, the informal economy forms a critical link in the network of social services that people rely upon for survival.

The effect of the Chechen conflict on local inhabitants can be gleaned from a survey of North Caucasian residents conducted by John O'Loughlin and colleagues in December 2005 as part of a larger project on inter-ethnic attitudes and geopolitical preferences in the North Caucasus.¹⁶ O'Loughlin's survey data point to the need for considerable caution in discussing the so-called "benefits" that have arisen as a result of the war in Chechnya (Fig. 2). Clearly, the prevailing view among the vast majority of residents of the North Caucasus is that the conflict has hindered the local economy. But within the data reflecting the responses there is a fairly distinct ordering of regions based on their economic well-being. Respondents in Stavropol' Kray, the third most economically viable and prosperous region of the North

¹⁵As a result, an estimated US\$40 million in taxes and other fees are not captured and available for the local republic budget.

¹⁶Details on the questionnaire and the survey design, as well as the sampling procedure, are available from O'Loughlin and Ó Tuathail, (2006).

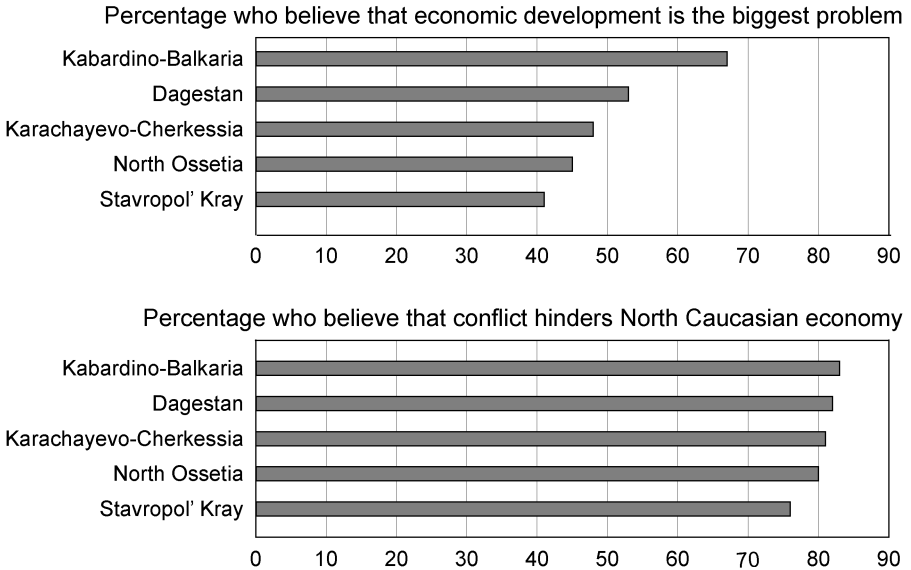


Fig. 2. Attitudes of respondents in the North Caucasus to questions about the local economy. *Source:* Public opinion survey, December 2005.

Caucasus (after Krasnodar Kray and Rostov Oblast), expressed relatively less concern about the challenge of economic development, although the proportion is still high at 42 percent.

It is not surprising that respondents in Kabardino-Balkaria, the region with the largest proportion of its economy in the informal sector according to Guseynov (2006), expressed the greatest concern about economic development. People there cannot rely on the state for formal employment, and must turn to the informal economy for economic survival. Kabardino-Balkaria has, in many ways, missed out on the conflict-related spending stimulus. Of the five districts in O'Loughlin's survey, it has the lowest monthly per capita income at \$140 (An Overview, 2007). Although the republic has been the site of terrorist incidents, it has not received the same infusion of compensation from Moscow as other regions, namely Dagestan and Ingushetia (Fig. 1). Kabardino-Balkaria's economic activities have not yet recovered in a form resembling a reorganized regional economy. The level of activity in tourism (mountain sports, hiking, skiing), production of construction materials, energy, engineering (Nal'chik), and agricultural output of cabbage and mutton remains well below levels of the Soviet period. The survey data again point to the fact that the benefits of the war have been unevenly distributed among the regions.

Alexandru Liono (2000) has presented a model describing how economic development in the North Caucasus has adapted to conflict. He identifies the adjustment to instability as the "art of survival," which combines two strategies, the paternalistic and the entrepreneurial. The paternalistic approach features heavy reliance on benefactors (the central state) for redistribution of wealth. Moscow thus provides funding for the basic social services that the local government is expected to deliver. As indicated in Figure 1, all republics rely heavily on federal subsidies for a large part of their budgets, so the task of developing close relationships with officials in the central government is key to securing funding. Regional elites, controlling the budget, "re-distribute" it according to their own views of social justice. Thus, due to traditional corruption, some of the money from the regional budget ends up in the hands of

the “family”¹⁷ and engagement with “family” problems becomes a matter of personal responsibility. Every clan leader, attaining high social status, feels responsible for other clan members, ensuring their existence by providing a variety of opportunities to obtain income, as well as protection. Accordingly, budgetary subsidies targeted to regional social needs pass through the hands of administrative elites before “trickling down” to reach the population.¹⁸ It should be noted here that governmental subsidies generally are inadequate to support any form of long-term growth so that, over time, an imbalance develops between those regions that are successful in attracting federal funds and the ones that are not. But regardless of the amount of federal subsidies, regional development efforts have been confounded by the sheer size of the informal sector. In 2004, the informal economy in North Caucasus was estimated at more than 50 billion rubles (\$1.7 billion), while total subsidies from federal budget into the region during that year were 47 billion rubles (Tenevnaya, 2006).

Local leaders are expected to take the initiative in devising economic strategies designed to bring in outside investment. Each region in the North Caucasus has pursued one or another of these strategies, with varying degrees of success, because it is difficult to unite elites in any broadly based initiative involving both the private and the public sector.

For a brief period, Ingushetia appeared to be a model of the entrepreneurial approach, which places a high value on individual initiative and prosperity. Between 1994 and 1997, a “special economic zone” existed in the republic, established as a means to compensate the Ingush for their deportation to Central Asia during World War II. Any Russian company that registered in the republic was eligible for a range of benefits, including a reduced profits tax rate (13 percent as opposed to the regular 35) and exemptions from property taxes, highway tolls, and other charges (Krasnoslobodtsev, 2005). The benefits had effectively transformed Ingushetia into an “offshore” location, extremely attractive to businesses throughout Russia. A portion of the windfall that the republican government received from a flood of investment was spent as intended (in building a new capital for the republic in Magas), whereas the remainder ended up in the hands of local elites. After this corporate haven was shut down, Ingushetia’s economy returned to its foundations in the informal sector—the largest industries continued to be unregistered oil extraction and refining (especially Chechen oil) and the production of contraband gasoline (Krasnoslobodtsev, 2005).

Dagestan’s informal sector is also linked closely with unregulated production and resale of oil and oil products; contraband and counterfeit alcohol (especially cognac) and fish products also are among the major industries. In 2006, Dagestan sold three times the amount of caviar that could have been produced according to the official catch of sturgeon that year (Khoprov, 2006). As a result of the size of this informal activity, there is a huge demand for currency in the republic. According to some local economists, the Dagestan branch of the Russian Central Bank issues four to five times the amount of currency as do its branches in the country’s more populous central regions. Dagestanis spend an estimated 10 percent of their wages purchasing foreign currency, and Makhachkala is home to 60–70 currency exchanges that do not check customers’ documents, as required by law (Kosikov and Kosikova, 2000).

In Stavropol’ Kray, the informal economy takes on an entirely different form than in the ethnic republics, for most of the activity comprises trade and agricultural production. Twenty-five to thirty percent of all consumer agricultural goods are sold for cash without

¹⁷A clan uniting numerous close and distant relatives.

¹⁸Chaotic spending of such “easy” money without a clear logic of economic development is clearly a disadvantage of the system.

documentation of any kind to record the sale or purchase. There are also no accurate records of the area of land under cultivation or measurement of crop yields, production volumes are grossly underestimated, and crop losses due to weather or other reasons (in storage or transport) usually are overestimated. In 2003, informal agricultural production in the kray reached an estimated \$900 million, and it is estimated that roughly 860,000 people in total worked in the informal economy (in all sectors), making it the largest provider of employment (*Rossiyskaya Gazeta*, November 13, 2003).

Throughout the North Caucasus, Stavropol' has developed a reputation as a money-laundering center. The region's relative stability, good financial infrastructure, and large transportation network make it an attractive location for "hot" money from all the republics in the south.¹⁹ One can even speak of a certain spatial division of labor in the informal economy's money-handling activity—Dagestan (especially Makhachkala) is where money from across the region is sent to "grow," whereas Stavropol' is where it goes to be laundered (Khoprov, 2006).

Ironically, it is the informal economy that acts as the most potent force supporting regional integration, and due to the lack of real growth in most legitimate sectors, it is the sole driver of development in most areas. While the informal economy is often regarded as a major source of corruption and criminality, it plays a much more nuanced role in the North Caucasus and in Russia as a whole. Many are forced into the informal sector because government economic policies have failed to provide them with any form of economic security. Therefore, in the context of the North Caucasus, it is critical to draw a distinction between economic activities that are informal *per se* (i.e., outside the regulatory purview of government authorities) and those involving criminal enterprises. Criminal gangs throughout the Caucasus are largely organized along ethnic lines, but there is no such ethnic or territorial division within the informal economy as a whole (Glinkina and Rosenberg, 2003, p. 520).

Consequently, although there is little or no bilateral contact among the regions of the North Caucasus in the political sphere, such relative isolation is certainly not the case in the economic realm. The so-called "Chechen factor" unites a number of differing interests across the region: the fear of additional separatist conflicts prompts Moscow to commit massive material resources to the region, but federal authorities then turn a blind eye to their clients' dealings in the informal economy. The money that accumulates in the region then needs some place to go, as the local economy is unable to absorb the amounts, even if distributed and spent properly. This forces local businesspeople to develop ties that allow them to invest such money well beyond their local territories.

MIGRATION AND CHANGING POPULATION CHARACTERISTICS

Migration has been a major factor in the reorganization of the economy of the North Caucasus. The ethnic composition of the population is nearly always analyzed as a balance between three broad ethnic groupings: Russians, Caucasian (or highland) nationalities, and groups that are not traditionally native to the region, such as Greeks, Armenians, Azeris, Germans, and Meskhetian Turks. The proportional distribution of these groups has never been stable over time, but changes constantly due to a variety of demographic and political factors, including conflict, political repression, and the redrawing of administrative boundaries.

¹⁹The laundered money is reportedly invested largely in the local real estate market (Khoprov, 2006).

Three major demographic trends can be identified in the North Caucasus since the disintegration of the Soviet Union. First, the ethnic Russian population in the region has fallen, as they have fled conflict and what they perceive to be increasingly hostile policies in the ethnic republics (Tsvetkov, 2006). Second, wars in Chechnya and elsewhere have created a massive refugee population (composed of both Russians and other ethnic groups) scattered throughout the region. Third, as titular and other nationalities in the ethnic republics have grown rapidly, they have also migrated into regions traditionally occupied by Russians outside these republics.

A total of 6.2 million people live in the regions of Russia that border on Chechnya, the largest being Stavropol' Kray, with 2.7 million inhabitants.²⁰ Roughly two-thirds of the population live in lowland areas, and a nearly one quarter in three metropolitan areas—Makhachkala-Kaspiysk (Dagestan), Mineral'nyye Vody, and Stavropol'. For obvious reasons, accurate demographic data about Ingushetia and Chechnya have been difficult to secure. According to the 2002 census, the republics had populations of 467,000 and 1.1 million, respectively. However, the rate of error (overcount) in this enumeration is probably 27–30 percent, so that the total population is highly unlikely to exceed 1.23 million.²¹ That being said, despite mass emigration and deaths associated with the conflict, these two republics show high rates of natural increase (Maksudov, 2005).²² The best estimates establish the current population of Chechnya at 700,000–750,000, and that of Ingushetia at slightly more than 400,000. One trend is clear regardless of whether one examines official statistics or expert estimates—Russians have become a minority in the areas bordering the conflict zones, and even in areas where they are in the majority, they often consider themselves as an embattled minority group (Belozеров, 2005).

In the immediate aftermath of the deportation of Caucasian peoples in the 1940s, the concentration of ethnic Russians in the lowland regions of the North Caucasus reached 95 percent, the highest level it had ever attained (*ibid.*). But following Stalin's death, the deported populations were “rehabilitated” and granted the right to return to their homelands. Communist Party cadres in Dagestan, North Ossetia, and even the former Chechen capital Grozny protested vigorously against the return of the Chechens and Ingush arguing that the regions would not be able to sustain the influx economically. This period was marked by extreme social instability, especially in the reconstituted Checheno-Ingush ASSR. When the deportees were finally allowed to return, beginning in 1957, many attempted to return to the homes in which they had previously resided, often prompting bloody confrontations with the new inhabitants (Nekrich, 1978).

The major trend from the 1960s onward has been the erosion of the Russians' dominant economic and demographic position in the region. Over time, the Russian population in aggregate has grown older and concentrated more heavily in urban areas of the region (Belozеров, 2005). At the same time, minorities, especially titular groups, experienced rapid population growth that continues to this day in many rural, mountainous areas. Due to the lack of economic development in these regions and the pressures placed on the limited

²⁰Krasnodar Kray and Rostov Oblast, with 5.1 and 4.4 million inhabitants respectively, are the largest units in the Southern Federal District).

²¹The count for Chechnya remains one of the most highly disputed results of the 2002 Russian census (e.g., see Heleniak, 2003, p. 434).

²²For estimates of fatalities associated with the Chechen wars, see Hill (1995), Cherkasov (2004), Abdullayev (2005), Hill, et al. (2005), and Kramer (2005b).

amount of land, large migrations into lowland areas, both rural and urban, are clearly evident.²³

The ethnic Russian population in the North Caucasus reached its peak in the mid-1970s and the decline accelerated rapidly after the Soviet Union's demise (Fig. 3). Although only Chechnya declared its independence from the Russian Federation, several other republics asserted their national identities in ways that were threatening to ethnic Russians (Davydov, 2004). Even North Ossetia, which experienced the smallest exodus of Russians during the period, systematically excluded them from positions of authority in the republic. During 1991–1992, an estimated 120,000 Russians fled Chechnya, while another 200,000 left following the outbreak of war in 1994; all told roughly 90 percent of the republic's ethnic Russian population departed (Tsvetkov, 2006). Most fled to Russian-dominated areas, especially to neighboring Stavropol' and Krasnodar krais.

Of course, Russians are not the only peoples forced to flee the fighting. Estimates of the total number of refugees vary greatly, but between 400,000 and 600,000 are thought to have been displaced in the first Chechen war. After the ceasefire, some of these people were able to return home or resettle, but the second war displaced an additional 350,000 since 1999 (Cherkasov, 2004; Holland, 2004). The Russian government has been sharply criticized for the way it has handled the refugee situation. Since 2004, it has shut down refugee camps in Ingushetia, claiming that the situation in Chechnya has been normalized and that the displaced can now return to their homes (Holland, 2004). Non-Russian forced migrants have followed a trajectory similar to that of the Russians, concentrating in urban areas that were once Russian dominated, but are now multiethnic. But while a large proportion of Russian migrants fled from urban centers in the republics to cities in regions such as Stavropol' and Krasnodar, most of the ethnic minorities arriving in these cities have left rural areas.

This huge flow of forced migrants was perhaps the sharpest initial impact of the wars on Chechnya's neighbors. Even within neighboring regions, large population shifts occurred as people vacated areas bordering on Chechnya (Riazantsev, 2003). The population shares of titular nationalities in the ethnic republics also have increased considerably. In areas once dominated by ethnic Russians, especially large urban centers, ethnic diversity has increased (Denisova, 2001; Belozarov, 2005). Often conflicts between elites of different ethnic groups develop an ethnic character, even if they are rooted in political or economic disputes. These types of disputes, especially between Russians and other groups, are often most acute in rural areas (Nefedova, 2004).

According to a study of forced migrants in Stavropol' Kray conducted by Riazantsev (2003), each one percent increase in the flow of migrants into the region results in a 0.2 percent jump in unemployment. However, this is largely a result of the failure of local authorities to properly manage the labor market or foster economic growth.²⁴ These changes to the economic structure of the region brought on by mass migrations from conflict zones appear to pose a genuine threat to the social stability of many communities, and local authorities have demonstrated an inability to adapt to these changes. Aleksandr Chernogorov, the governor of Stavropol' Kray, has spoken publicly quite often about the threat of "ethnic capital" (money invested by non-Russians; Tkachenko, 2003). The implication is that continued ethnic antagonism between the local Russian population and non-Russian immigrants may play a

²³See, for example, the paper by Eldarov et al. (2007) on migration in Dagestan in this special issue.

²⁴The study also determined that 30 percent of the people surveyed did not turn to the state for any assistance whatsoever when they became displaced.

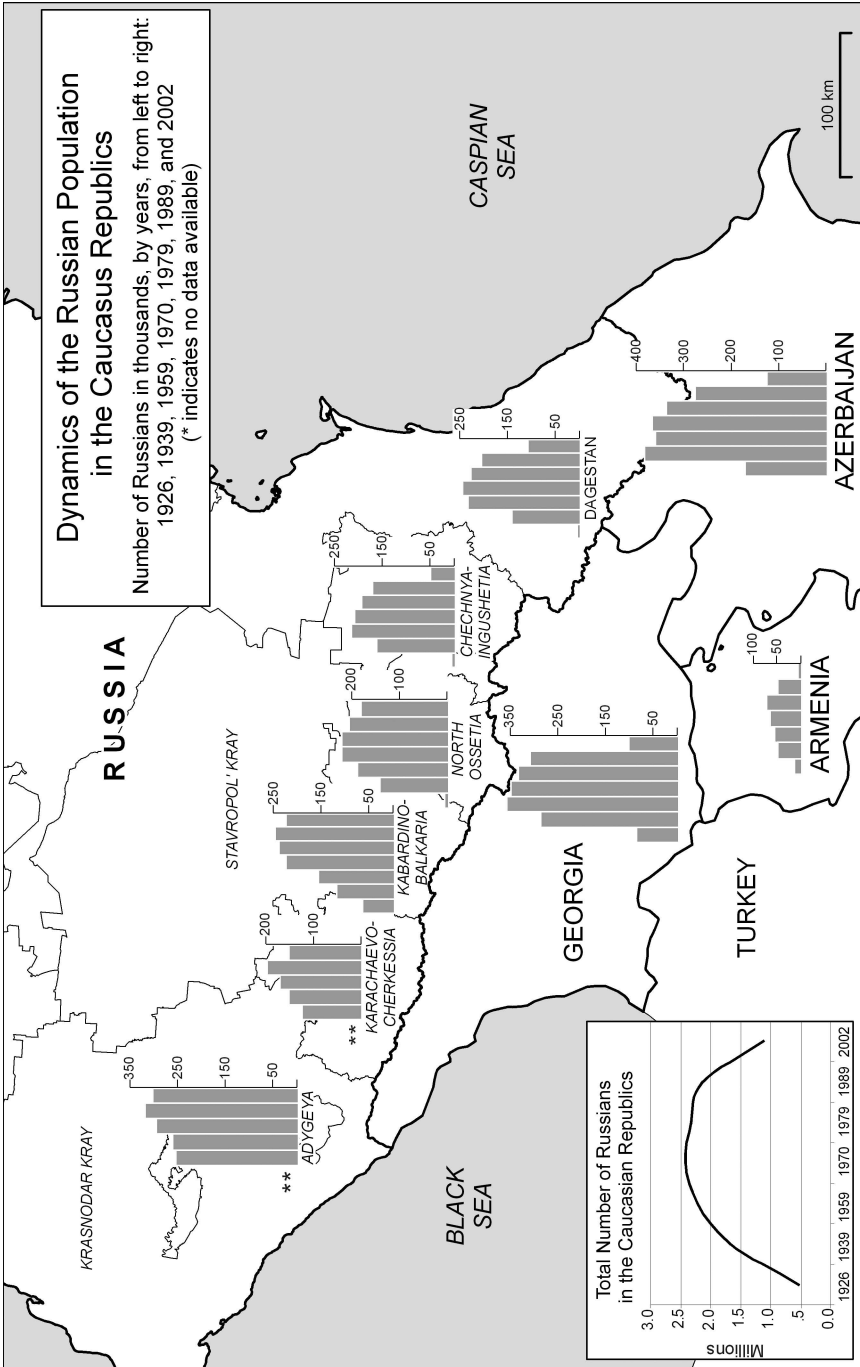


Fig. 3. Dynamics of the ethnic Russian population in the North Caucasus region, 1926–2002. *Source:* Compiled by the authors from Soviet censuses from 1926–1989, the 2002 census of the Russian Federation (Rosstat, 2003), and the first post-Soviet censuses of Armenia, Azerbaijan, and Georgia (Rowland, 2004, 2006, 2007).

role in compromising the ability of the region to cope economically with the new demographic situation.

Migration on the scale prevailing in the North Caucasus has had major economic consequences. While some regions have been able to adapt to certain effects of the war in Chechnya, the refugee question has not been as easily resolved. But beyond the refugee situation, larger demographic processes are taking place. The dissolution of the Soviet Union has resulted in the diversification of the social and ethnic structure of population in the traditionally Russian part of the North Caucasus. As a result of the Chechen wars and economic transition, discourses of “Caucasian expansion” and “de-Russification” (see, for example Tsvetkov, 2006) have been advanced to explain these demographic processes. Thus, according to the common wisdom, changes in the ethno-cultural profile of many settlements is perceived as a threat to stability. Nevertheless, a more balanced approach would indicate that over the course of almost two centuries, the major ethnic groups of the region have generally interacted on mutually agreeable terms. In the beginning, the Russians were the leading group, providing regional integration into the Russian Empire and later the Soviet economy. At present, it is the Caucasians who have become more entrepreneurial and oriented toward success. As they expand their activities within ethnically Russian territories, the peoples of the North Caucasus solidify linkages between their home republics and the common economic space of Russia, thereby contributing to its integration.

CONCLUSION

Most if not all of the examples presented above should permit the reader to conclude that the effects of the war in Chechnya on the North Caucasus have been uneven and diverse. Much has been written about the spread of Islamic extremism, interethnic strife, separatist movements, rampant criminality, and other negative aspects of the conflict that supposedly demonstrate the host of social, cultural, and economic cleavages that plague the region. In reality, however, it is possible to identify specific economic processes occurring in a large number of sectors at a variety of scales, many of which have little to do with the alleged ethnic nature of the wars in Chechnya.

Regions have assumed new economic positions and roles that are being solidified as the new economic system takes hold. Certain aspects of this new order, such as the reorganization of transportation infrastructure, are unlikely to change in the near term. But other aspects are far less stable. A large proportion of the population continues to rely on the informal economy for survival, and for most, it provides just enough to suffer in poverty. The governments and elites of the regions have been able to usurp some of the economic space that Chechnya once occupied, but this alone does not constitute a reliable long-term economic development strategy. Nor does heavy reliance on the federal government, which uses aid to prop up its clients in the region in an effort to maintain security. The result has been an uneven distribution of the inflowing wealth, with much of it diverted out of the North Caucasus entirely.

Not unlike the past two centuries, the demographic character of the North Caucasus is in a state of flux. The economic and ethnic divide between the republics and traditionally Russian areas continues to widen, and the refugee situation remains highly unstable, despite the Kremlin’s claims that it is safe for all to return to Chechnya. In short, despite the lack of fully reliable data, and moving beyond a narrow focus on issues of criminality, conflict, and security, we should devote more careful attention to the dual processes of regional economic

interaction and demographic change. In so doing, we will gain a better understanding of how the region will grow and develop in the future.

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